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BUSINESS AND FINANCE TERMS YOU NEED TO KNOW

Whether you're just beginning your entrepreneurial journey or you're a seasoned professional, it's important to understand the language used in business and finance.

Here are 20 must-know business and finance terms:

1 ACCOUNTS PAYABLE

Accounts payable is the debt a company owes to its suppliers. Accounts payable can also refer to the department within a company that is responsible for paying bills and handling the purchasing of inventory/equipment.

2 ACCOUNTS RECEIVABLE

Accounts receivable is the debt owed to the company from its customers. Accounts receivable can also refer to the department within a company that handles collecting money from customers.

3 ASSET(S)

An asset is anything of value owned by a company. Defined broadly, an asset can include anything from cash to equipment to inventory.

4 BANKRUPTCY

Bankruptcy is the legal status of a person or business entity that cannot pay its debts. Bankruptcy is a serious financial situation. In 2020, approximately 21,655 U.S. businesses filed for bankruptcy.¹

5 BOOKKEEPING

Bookkeeping is the process of recording and tracking a company's financial transactions and maintaining its financial records. Bookkeeping is typically performed by an accountant or financial professional, although nearly 45% of small businesses do not employ a bookkeeper.²

6 BOOTSTRAPPING

Bootstrapping is a method of starting a business without using outside financing. It is often used to keep overhead costs low while getting the business off the ground.

7 BUSINESS PLAN

A business plan is a formal document that outlines a company's goals and objectives, as well as the strategies it will use to achieve those goals. Nearly a third of small businesses have a formal documented business plan in place.³

8 CAPITAL

Sometimes referred to as funds or cash, capital is the money available to start and expand a business. Capital can come in the form of cash, credit, or other financial instruments.

9 CASH FLOW

Cash flow is the amount of money that comes into and out of a business. Cash flow is an important indicator of a company's financial health, revealing whether a business is generating enough revenue to meet its obligations. A lack of cash flow is one of the top reasons brands go out of business, with 82% of small businesses reporting cash flows problems as the reason they shut their doors.⁴

10 COLLATERAL

Collateral is property or assets that can be used as security for a loan. If the business does not repay its loan, the lender can seize the collateral and use it to pay the debt incurred.

11 CREDIT LIMIT

A credit limit is the maximum amount of credit that a business can borrow. Business credit lines can be used for various purposes, including inventory purchases, equipment acquisition, and payroll funding.

12 EMPLOYER IDENTIFICATION NUMBER (EIN)

A company's Employer Identification Number (EIN) is a nine-digit number assigned by the IRS. The IRS uses this number to identify business tax accounts.

13 FINANCIAL STATEMENTS

Financial statements encompass a company's financial data and information about its financial health. The three most important financial statements include a company's income statement, balance sheet, and cash flow statement.⁵

14 GUARANTOR

A guarantor is a person who commits to paying a debt if the original borrower does not pay. This is typically a trusted business partner who agrees to pay the debt if the business defaults on a loan. A guarantor is often used when lending to small businesses with a limited credit history. With 43% of new companies applying for new lines of credit in 2019⁶ alone, having a reliable guarantor is a smart business strategy.

15 INTEREST RATE

The interest rate is the percentage that a lender charges for the use of capital. Currently, the average interest rate for a business sits between 2.54% to 7.02%.⁷

16 LIABILITY

Liabilities are financial obligations that a company owes to creditors. Liabilities include loans, mortgages, and credit card debt. A business with high levels of liability may be at risk of going out of business if it is unable to pay its debts

17 LIEN

A lien is a legal claim against a business's property, which prevents the company from selling or transferring the property without the lien holder's permission. When a lien is placed on a business's property, it means that the lienholder has the right to seize the property and sell it to pay the debt that was incurred. The IRS issues nearly 1 million liens each year on businesses.⁸

18 LOAN(S)

A business may take out a loan to use as working capital, to improve the business, or to purchase inventory, equipment, or other business assets. Business loans are issued for a designated purpose and often have a set repayment schedule.

19 NET WORTH

A business's net worth is its total assets minus its total liabilities. Net worth is a significant financial indicator of a business's financial health.

20 PROFIT(S)

Profit is the excess revenue remaining after a business pays its expenses. When a company makes a profit, it means that the business has a financial gain.

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1 - <https://www.statista.com/statistics/817918/number-of-business-bankruptcies-in-the-united-states/>

2 - <https://clutch.co/accounting/resources/why-small-businesses-lack-accounting-resources-2018>

3 - <https://clutch.co/consulting/resources/strategy-development-tips-small-businesses>

4 - <https://www.businessinsider.com/why-small-businesses-fail-infographic-2017-8?r=US&IR=T>

5 - <https://www.netsuite.com/portal/resource/articles/small-business/small-business-financial-analysis.shtml>

6 - <https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2020/2020-sbcs-employer-firms-report>

7 - <https://www.nerdwallet.com/article/small-business/small-business-loan-rates-fees>

8 - <https://www.irs.gov/pub/irs-soi/12resconestofliens.pdf>